

**REPORT OF THE AUDIT OF THE
RUSSELL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Ronnie McFall, Russell County Judge/Executive
Honorable Larry L. Bennett, Russell County Sheriff
Members of the Russell County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Russell County, Kentucky, for the year ended December 31, 2002.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Russell County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
RUSSELL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE RUSSELL COUNTY SHERIFF

**For The Year Ended
December 31, 2002**

Ross & Company, PLLC, has completed the Russell County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$466 from the prior calendar year, resulting in excess fees of \$240 as of December 31, 2002. Revenues increased by \$59,088 from the prior year and disbursements increased by \$59,554.

Report Comments:

- The Sheriff Should Publish His Financial Statement Within 60 Days After Close Of The Calendar Year
- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Entered Into A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Russell County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Ronnie McFall, County Judge/Executive
Honorable Larry L. Bennett, Russell County Sheriff
Members of the Russell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Publish His Financial Statement Within 60 Days After Close Of The Calendar Year
- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Entered Into A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
December 5, 2003

RUSSELL COUNTY
LARRY L. BENNETT, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

Federal Grants:

COPS in Schools Award	\$	50,400	
Lake Patrol		11,352	\$ 61,752

State Grant:

Kentucky Law Enforcement Foundation Program Fund			28,155
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State Fees For Services:

Finance and Administration Cabinet	\$	10,852	
Cabinet For Human Resources		6,661	17,513

Circuit Court Clerk:

Sheriff Security Service	\$	7,623	
Fines and Fees Collected		2,771	
Court Ordered Payments		244	10,638

Fiscal Court			68,445
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County Clerk - Delinquent Taxes			1,235
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Commission On Taxes Collected			175,211
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Fees Collected For Services:

Auto Inspections	\$	7,295	
Accident and Police Reports		79	
Serving Papers		18,375	
Carrying Concealed Deadly Weapon Permits		4,920	30,669

Other:

Add On Fees For Late Tax Payments	\$	26,053	
Miscellaneous		3,529	29,582

Interest Earned			1,793
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Borrowed Money:

State Advancement			97,552
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Total Receipts			\$ 522,545
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The accompanying notes are an integral part of this financial statement.

RUSSELL COUNTY
 LARRY L. BENNETT, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-			
Deputies' Salaries	\$	254,797	
Employee Benefits-			
Employer's Share Retirement		1,650	
Employer Paid Health Insurance		39,336	
Materials and Supplies-			
Office Materials and Supplies		4,126	
Uniforms		4,478	
Auto Expense-			
Vehicle Expense		34,799	
Other Charges-			
Dues		721	
Postage		1,154	
Interest Paid to Schools		360	
Bond		1,597	
Carrying Concealed Deadly Weapon Permits		3,550	
Miscellaneous		4,445	
Capital Outlay			
Vehicle Expense		10,000	\$ 361,013
Debt Service:			
State Advancement			<u>97,552</u>
Total Disbursements			<u>\$ 458,565</u>
Net Receipts			\$ 63,980
Less: Statutory Maximum	\$	62,258	
Training Incentive		<u>1,482</u>	<u>63,740</u>
Excess Fees Due County for 2002			\$ 240
Payment to County Treasurer - December 3, 2003			<u>240</u>
Balance Due at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

RUSSELL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2002
 (Continued)

Note 2. Employee Retirement System (Continued)

The benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, as of December 27, 2002 and December 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$7,711 and \$5,229 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 27, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Uncollateralized and uninsured	<u>7,711</u>
Total	<u>\$ 107,711</u>

Note 4. Investigation Fund

As of December 31, 2001, the Sheriff had a balance of \$69 in his forfeited drug money account. During calendar year 2002, he received \$21,784 and expended \$17,307. This left a balance of \$4,546 as of December 31, 2002.

COMMENTS AND RECOMMENDATIONS

RUSSELL COUNTY
LARRY L. BENNETT, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

- 1) The Sheriff Should Publish His Financial Statement Within 60 Days After The Close Of The Calendar Year
-

KRS 424.220(6) requires that "The sheriff shall, within sixty (60) days after the close of the sheriff's fiscal year (i.e. the calendar year), cause the financial statement to be published in full in a newspaper." The Sheriff did not publish his financial statement. We recommend that the Sheriff comply with this statute.

County Sheriff's Response:

None.

- 2) The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Entered Into A Written Agreement To Protect Deposits
-

On December 27, 2002, \$7,711 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Sheriff's Response:

None.

INTERNAL CONTROL:

- 1) Lacks Adequate Segregation Of Duties

Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. The Sheriff has assigned one deputy to perform all of the accounting functions of the office. We recommend that the Sheriff periodically review this work in order to create compensating controls to offset this internal control weakness. Examples of compensating controls are: 1) comparing source documents to the receipts and disbursements ledgers and then to the monthly reports; 2) having deposits compared to the receipts ledger; and 3) comparing checks to invoices and claims before they are mailed.

County Sheriff's Response:

None.

RUSSELL COUNTY
LARRY L. BENNETT, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

PRIOR YEAR:

The following finding was not corrected.

- The Sheriff Should Publish His Financial Statement Within 60 Days After The Close Of The Calendar Year

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Russell County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated December 5, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Russell County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Publish His Financial Statement Within 60 Days After The Close Of The Calendar Year
- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Entered Into A Written Agreement To Protect Deposits

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Russell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
December 5, 2003

